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MANAGING IN TOUGH TIMES INITIATIVE

FAMILY FINANCIAL MANAGEMENT

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THIS MONTH'S TOPIC:

Hitting the Road...Buying a Vehicle

Buying a vehicle is a very important financial decision. Typically, it is your largest financial obligation, second only to your home mortgage. According to a recent study, Americans are driving their cars longer. The average length of vehicle ownership in 2012 was four years and nine months, a noticeable increase from 2002 when the average was slightly over three years. However, in recent months auto sales have been increasing due to low vehicle interest rates and banks relaxing their loaning policies.

But, before you head to the car lot to drive away in a new set of wheels, there are several factors to consider.

First, determine if you really need a new vehicle. Although the new car smell may have worn off in your current vehicle, is it still getting the job done? Do you feel you have safe reliable transportation? Are you anticipating any major repairs in the near future?



Do your homework prior to visiting a car lot

If you decide a new vehicle is in your future, begin by taking a close look at your savings and monthly budget. Although it may be ideal to pay for a new car in cash that may not always be an option. To calculate the amount you can afford to pay for a vehicle, look at your savings and identify how much money you are able to comfortably contribute to your down payment. Also, determine the trade-in value of your current vehicle. Websites such as Kelly Blue Book (kellybluebook.com) or NADA.com can help you accurately value your current car. Subtract the payoff amount of your auto loan from the vehicle value and the remainder can be applied toward your down payment.

Once you know the amount you can comfortably afford, research cars within your price range. Use the internet to compare vehicle features and costs. Narrow your search to two to three vehicles before heading out for a test drive, which will help you focus on the specific features that are important to you.

Next visit a lending institution to be prequalified for an auto loan. It is helpful to know how much you can afford to spend on a vehicle and the amount of the monthly payment. Consider the monthly payment amount carefully and be certain it works within your budget.

Be cautious of extending the term or length of your loan to lower the monthly payments. Not only will you be paying more in interest, but you are also at greater risk of becoming upside down on your loan or owing more on your car than it is worth. Ideally a car loan will be 36 months or less.

Finally, when comparing vehicles, be certain to look at all costs, not just the sticker price. When comparing makes and models look at annual estimated fuel cost, insurance, maintenance, and estimated future resale value.

Written by: Jennifer Hunter, Ph.D., University of Kentucky Extension Specialist, Family Resource Management

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Designed by:
Katie Keith
University of Kentucky
Cooperative Extension Service
116 Erikson Hall
Lexington, KY 40506-0050
(859) 257-2097
Katie.Keith@uky.edu

Stock images: 123RF.com



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